THE PRINCE EDWARD ISLAND ECONOMY

PROGRESS REPORT 2003

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Economics, Statistics and Federal Fiscal Relations Division
Provincial Treasury

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INTRODUCTION

This economic report summarizes the progress of the Prince Edward Island economy in 2003 using available statistical information which largely covers the period January to October. The report also references the national and international economic perspective. Emerging trends in economic indicators such as labour, population, prices, consumer spending, manufacturing, construction and the primary industries are identified and discussed.

It is evident from the data that growth of both the national and provincial economies slowed in 2003 following their robust performance in 2002. Notwithstanding this, employment gains on P.E.I. improved in 2003, rising by 2.4 per cent compared to annual growth of 1.8 per cent in 2002. Unemployment fell, averaging 11.2 per cent January to September, which compares to an annual rate of 12.1 per cent in 2002. From January to September 2003, consumer price inflation on P.E.I. averaged 4.3 per cent which compares to an annual inflation rate of 2.7 per cent in 2002. In the first quarter, the All-Items Consumer Price Index increased by 6.5 per cent, relative to the first quarter of 2002, as a result of rising oil prices and automotive vehicle insurance premiums. The moderation in oil prices since April reduced year over year inflation to 3.2 per cent between April and September 2003.

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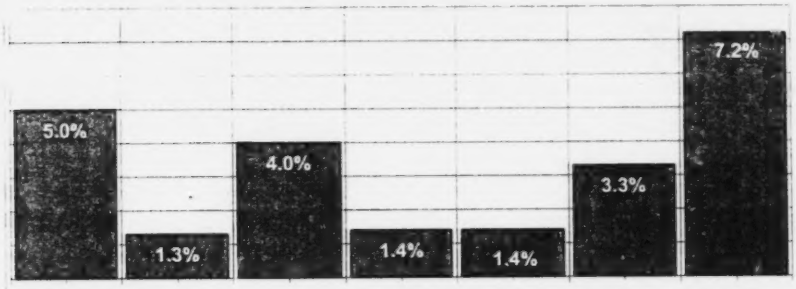
NATIONAL AND INTERNATIONAL ECONOMIC PICTURE

The United States economy has been relatively weak since 2000, improving in the second and third quarters of 2003. Annual economic growth in the U.S. was only 0.3 per cent in 2001 and 2.4 per cent in 2002. The *U.S. Federal Reserve Bank* estimates that GDP will expand within the range of 2.5-2.75 per cent in 2003. Diagram 1 shows real G.D.P. growth in the U.S. from the first quarter of 2002 to the third quarter of 2003. The lingering effects from the collapse of the technology sector in 2000,

the terrorist attacks in September 2001, and the emergence of corporate finance scandals in 2001 and 2002, have hindered economic recovery in the U.S.. Adverse developments that beset the U.S. economy, and consequently the world economy, in 2003, include the war in Iraq which led to high oil prices, the rapid depreciation of the U.S. dollar against most industrialized currencies, and most recently, the power blackout in the North Eastern states and central Canada. In their July 15th Monetary Policy Report to Congress, the Federal Reserve expects that the U.S. economy will continue to improve in the second half of 2003 and into 2004. Preliminary estimates indicate that U.S. real G.D.P. expanded at an annual rate of 7.2 per cent in the third quarter of 2003. The U.S. economy is expected to increase within the range of 3.75-4.75 per cent in 2004. Factors supporting this outlook include the timely end to major military action in Iraq, lower oil prices, strengthened equity markets and consumer confidence. The Federal Reserve also suggests that an accommodative stance of monetary policy, increased defence spending and further tax cuts will further help to improve the economy.

Diagram 1
Quarterly Real GDP Growth at Annual Rates: 2002-2003
United States



Source: U.S. Bureau of Economic Analysis

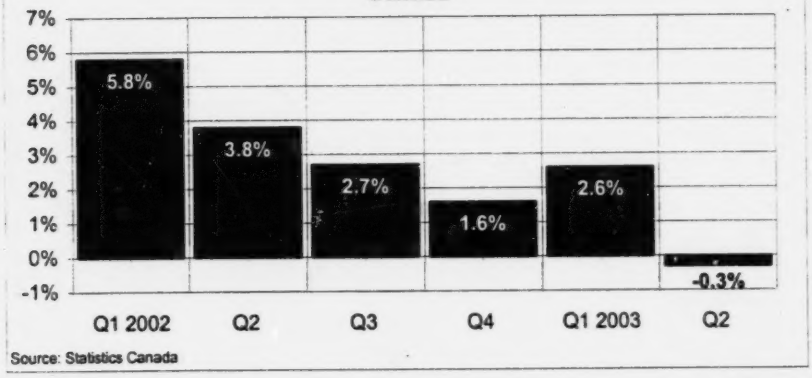
Since the beginning of 2001, the Federal Reserve Bank lowered interest rates 13 times to stimulate a weakened economy and low stock market values. The last rate cut was in June 2003 when the Bank lowered the federal funds rate by 25 basis points, to 1.0 per cent, where it currently stands. Between January and September 2003, the monthly U.S. unemployment rate averaged 6.0 per cent, compared to 5.7 per cent during the same period last year.

Diagram 2 shows real G.D.P. growth for Canada from the first quarter of 2002 to the second quarter of 2003. It is apparent that growth of the economy slowed in this period, contracting in the second quarter of this year. In their *Monetary Policy Report*, October 2003, the Bank of Canada expects that the Canadian economy will increase by about 2 per cent in 2003, and 3.25 per cent in 2004. This compares with economic growth in Canada of 1.9 per cent in 2001 and 3.3 per cent in 2002.

Several factors have contributed to the slowdown in 2003: the outbreak of Severe Acute Respiratory Syndrome (SARS) in March that hindered Canada's tourism and travel industry; the discovery of Bovine Spongiform Encephalopathy (BSE) in a single cow in Alberta in May led to an international

ban on Canadian beef and cattle exports; the substantial rise in the Canadian dollar relative to the U.S. dollar dampened foreign demand for Canadian products; the power blackout experienced in Ontario in August; and the forest fires and recent floods in British Columbia.

Diagram 2
Quarterly Real GDP Growth at Annual Rates: 2002-2003
Canada



Source: Statistics Canada

The Bank of Canada expects that the Canadian economy will strengthen during the second half of 2003 and in 2004. This is supported by strong domestic demand, growth in business investment, and improved economic conditions abroad. In addition, some of the adversities listed above have already become less prevalent. Health Canada reports that there have been no new reported cases of SARS in Canada since mid-June, and in terms of BSE, the U.S. has already relaxed some border restrictions on movement of Canadian beef.

The Bank of Canada lowered its target overnight lending rate twice in 2003: first in July, from 3.25 per cent to 3.0 per cent, and in September to 2.75 per cent where it currently stands. On October 15, the Bank announced that the target overnight lending rate would be left unchanged.

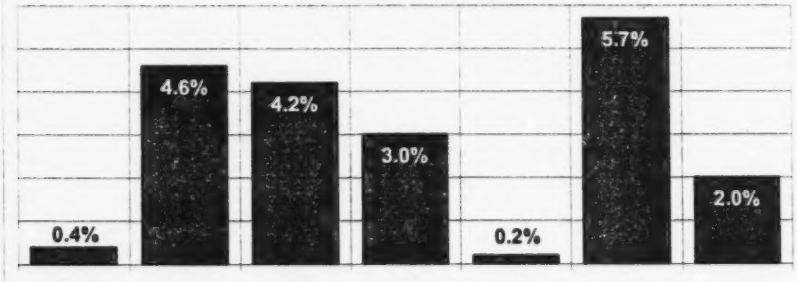
Year-to-date growth of national employment was 2.3 per cent to September 2003 and the unemployment rate averaged 7.7 per cent. Total labour income increased by 4.5 per cent during the first six months of 2003 relative to the same period in 2002. The consumer price index for Canada increased an average 3.1 per cent from January to September 2003, on a year-to-date basis. This compares with an annual increase of 2.2 per cent in 2002. The increase in the inflation rate in 2003 is largely attributable to higher prices for energy and automotive insurance premiums.

THE ISLAND ECONOMY

Diagram 3 shows real G.D.P. growth for P.E.I. from 1997 to 2003. Statistics Canada estimates that the Prince Edward Island economy expanded by 5.7 per cent in 2002. Provincial Treasury projected an increase of 2.0 per cent in G.D.P. in the 2003 Provincial Budget. Notwithstanding the reduced growth in 2003, non-residential construction activity remains buoyant and employment growth is

positive. The strong growth recorded last year was largely due to a return to a normal potato harvest following the drought in 2001, and growth in manufacturing and construction.

Diagram 3
Annual Real GDP Growth: 1997-2003
Prince Edward Island



Source: 1997-2002: Statistics Canada; 2003 Forecast: P.E.I. Provincial Treasury

Table 1 displays economic forecasts for P.E.I. in 2003 by various private forecasters. They range from 1.8 per cent to 2.0 per cent.

TABLE 1

PRIVATE SECTOR ECONOMIC GROWTH FORECASTS, 2003
PRINCE EDWARD ISLAND

Forecast by:	% Economic Growth
RBC Financial Group	2.0
Scotiabank Group	2.0
TD Bank Financial Group	1.8
BMO Financial Group	1.9
The Conference Board of Canada	1.8

THE LABOUR MARKET

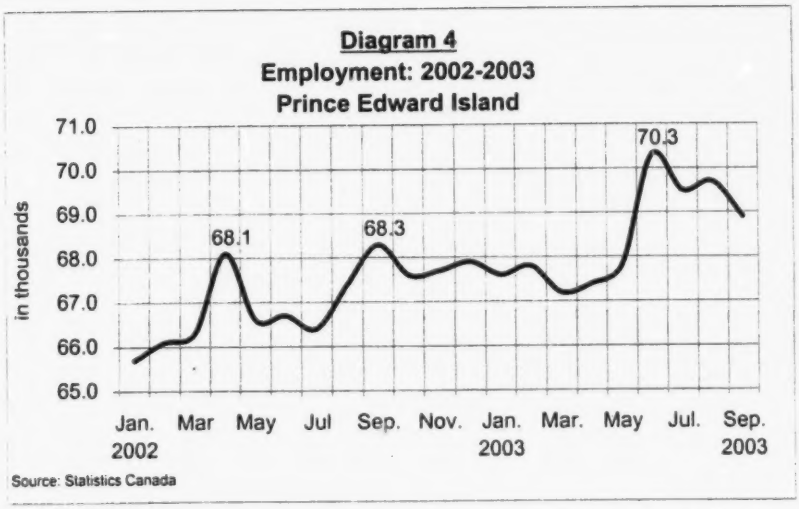


Diagram 4 shows monthly employment levels on Prince Edward Island from January 2002 to September 2003. Employment rose sharply in June of this year following a relatively flat trend since October 2002. There was an increase of 2,500 jobs between May and June which were concentrated in the service-providing sector: namely, in trade, finance insurance and real estate, and business services. During the first nine months of 2003, employment was up by an average of 1,700 jobs, an increase of 2.4 per cent on a year-to-date basis. This compares with an annual increase of 1.8 per cent in 2002.

Employment in the service-providing sector is increasing at a rate of 4.7 per cent in 2003 relative to the same period last year. Lower employment levels in agriculture and construction in 2003 caused employment in the goods-producing sector to decline by 3.7 per cent year-to-date. The seasonally adjusted unemployment rate fell from a high of 12.8 per cent in March 2003 to a low of 9.6 per cent in June. The average unemployment rate from January to September 2003 was11.2 per cent.

POPULATION

On September 25, 2003, Statistics Canada released revised population estimates based on the 2001 Census counts adjusted for net undercoverage. The new series are shown in Diagram 5. The Prince Edward Island population totalled 137,781 on July 1, 2003, compared to 136,998 a year earlier. During the twelve month period ending on June 30, 2003, the provincial population expanded by 783 persons, or 0.6 per cent. Natural increase made up 21.8 per cent of this growth, which is down substantially from 63.5 per cent a year earlier. Net inter-provincial migration accounted for 72.9 per cent of the increase, up from 19 per cent in 2002, while net international migration in 2003 made up 5.2 per cent as compared to 17.5 per cent in 2002.

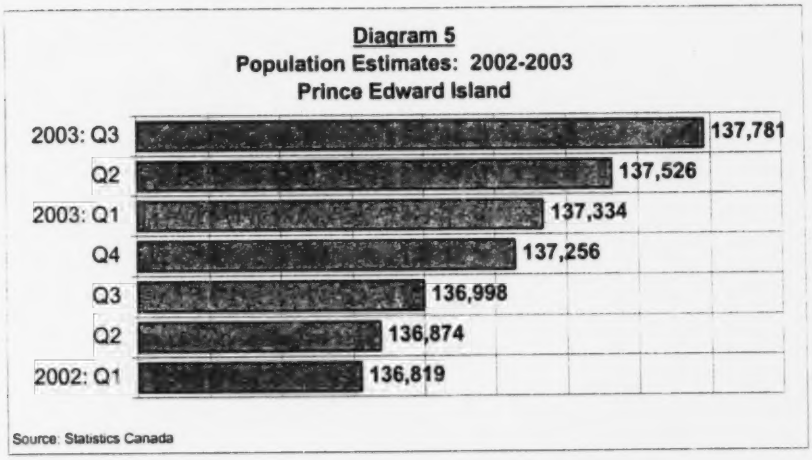


Table 2 compares the 1996 Census based population estimates with the new 2001 Census based estimates for 1991, 1996, 2001 and 2002.

TABLE 2

POPULATION ESTIMATES: JULY 1
PRINCE EDWARD ISLAND

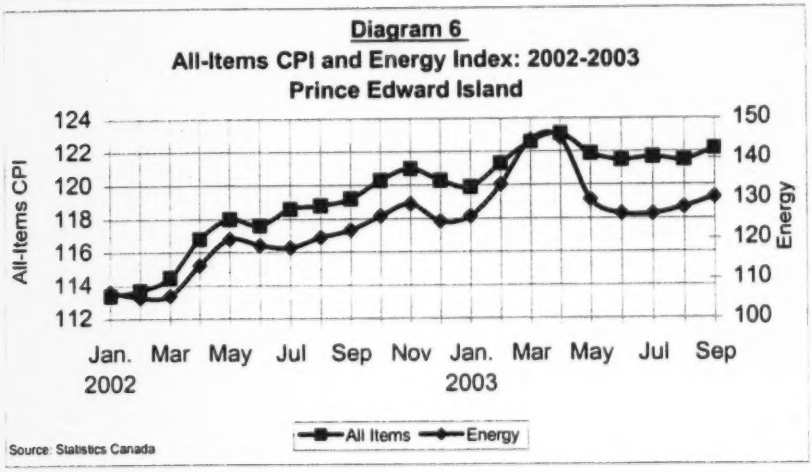
	Based on the 1996 Census	Based on the 2001 Census	Difference
1991	130,312	130,306	-6
1996	136,188	135,751	-437
2001	138,904	136,672	-2,232
2002	139,913	136,998	-2,915

Source: Statistics Canada

PRICES AND RETAIL SALES

As noted previously, the year-to-date *All-Items Consumer Price Index* (CPI) for Prince Edward Island increased by 4.3 per cent during the first nine months of 2003. This compares to an annual increase of 2.7 per cent for 2002. Increases in energy prices and automotive insurance premiums were the main factors contributing to the increase in inflation in 2003. Diagram 6 compares the consumer

price index with the energy price index from January 2002 to September 2003. Energy prices have moderated since peaking in April of this year as the impact of the war in Iraq subdued. In addition, the Organization of the Petroleum Exporting Countries indicated that oil stocks are reaching normal seasonal levels. The average price of regular gasoline at self-service stations on the Island, as measured by Statistics Canada, was at a low of 59.4 cents per litre in January 2002. In March 2003, the average price of regular gasoline reached a high of 82.9 cents per litre. At November 1, 2003, the average maximum price of gasoline at self-serve stations, as regulated by the Island Regulatory and Appeals Commission, was 71.9 cents per litre.



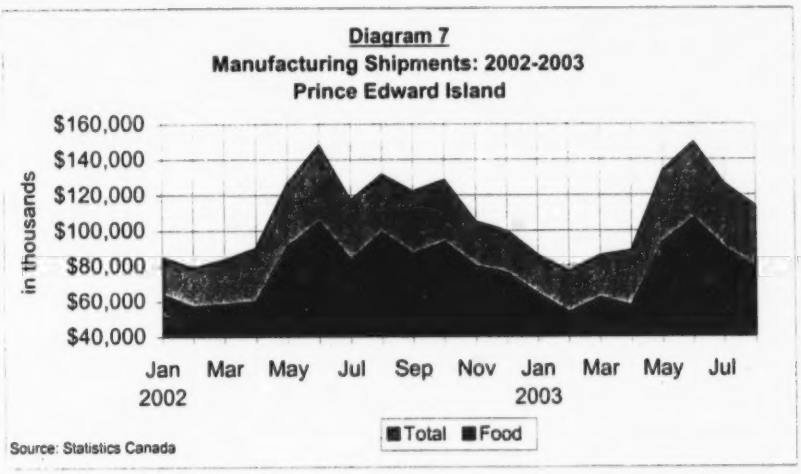
Seasonally adjusted retail sales on Prince Edward Island valued at $884.6 million during the first eight months of 2003. This is an increase of 0.4 per cent over the same period last year and compares to 3.3 per cent in 2002. Nationally, year-to-date retail sales have expanded by 3.8 per cent and compares with an annual increase of 6.0 per cent in 2002. From January to August 2003, the value of new motor vehicles sold on P.E.I. decreased by 1.7 per cent on a year-to-date basis, to value $88.5 million. This compares to an annual increase of 8.7 per cent in 2002.

PERSONAL INCOME

Total labour income earned on Prince Edward Island rose by 4.2 per cent during the first six months of 2003. This compares with 6.1 per cent during the same period in 2002 and an increase of 5.8 per cent for total personal income that year. The increase in income this year can be attributed to employment growth and wage settlements. For Canada, total labour income increased by 4.5 per cent during the first half of 2003 relative to the same period last year.

Increased labour income in manufacturing of 12.3 per cent in the first half of 2003 was the main contributor to income gains on P.E.I. this year. The largest increase in the service-providing sector occurred in the Finance, Insurance and Real Estate services industry where labour income increased by 9.8 per cent.

MANUFACTURING



Total manufacturing shipments on Prince Edward Island were valued at $859.1 million during the first eight months of 2003. This is a decrease of 0.2 per cent from the same period last year. Shipments of food products for this period were valued at $604.7 million, a decline of 1.9 per cent from the previous year, because the value of processed fish products to date decreased by 11.2 per cent over last year. This follows an annual increase of 16.2 per cent in 2002. Weakened market conditions and the high value of the Canadian dollar caused the decline in 2003. The value of shipments of total food products other than fish, which is predominantly made up of processed potato products, rose in the order of 5.0 per cent relative to the same period last year. This compares to a 2.4 per cent annual increase in 2002. Diagram 7 shows the monthly value of total manufacturing and food manufacturing shipments from January 2002 to August 2003 where the seasonality of this sector is apparent.

During the first eight months of 2003, the value of non-food manufacturing shipments rose by 4.3 per cent compared to the same period last year. Increases in the value of shipments of printing and publishing, wood and machinery industries were the main factors contributing to the growth in 2003.

INTERNATIONAL TRADE

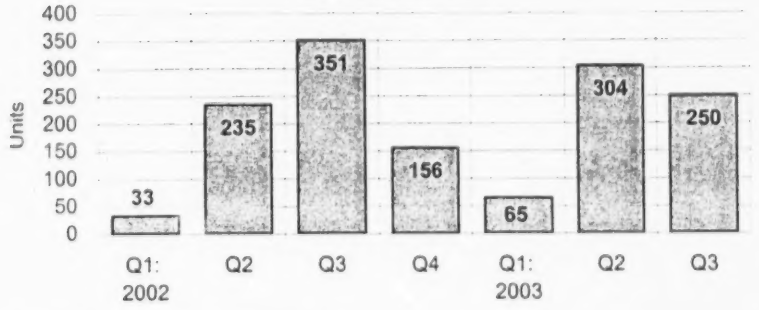
International exports of goods from Prince Edward Island for the first eight months of 2003 were valued at $417.8 million, a decrease of 6.3 per cent compared to the same period in 2002. In this period, the value of exported seafood products fell by 34.8 per cent year-to-date, from $118.2 million in 2002 to $77 million in 2003. This is associated with the decline in processed fish manufacturing noted above. However, frozen food manufacturing exports grew by 3.6 per cent over the same period last year because of increased exports of vegetable products. Industry Canada indicates that from January to August 2003, aerospace product and parts manufacturing exports are down by 15.7 per

cent relative to the same period last year, to $14.9 million.

CONSTRUCTION AND HOUSING

According to Statistics Canada's *Revised 2003 Private and Public Investment Intentions*, the value of construction is forecast to expand by 2.7 per cent in 2003. Non-residential construction is the main factor this year, showing an increase of 7.1 per cent in value, while housing construction is forecast to decline by 1.6 per cent. The major growth factor in 2002 was housing construction which advanced by 14.9 per cent in value. However in 2003, year-to-date residential building permits issued during the first nine months totalled $67.7 million, a decrease of 10.0 per cent compared to the same period last year. By contrast, from January to September 2003, the value of non-residential building permits totalled $74.1 million, a year-to-date increase of 97.3 per cent. Construction of the University of Prince Edward Island aquatic and arena complex and spending on industrial projects were key contributors to this increase. Diagram 8 shows quarterly housing starts on P.E.I. from the first quarter of 2002 to the third quarter of 2003. Housing starts during the first three quarters of 2003 totalled 619 units which matches the number of starts recorded over the same period last year.

Diagram 8
Quarterly Housing Starts: 2002-2003
Prince Edward Island



Source: Canada Mortgage and Housing Corporation

TOURISM

Tourism P.E.I. recently released data on tourism-related activities to the end of September 2003 which indicate that most tourism indicators are down from last year. Historic sites however, registered a 6.5 per cent increase in visitors relative to last year. Year-to-date, Golf Links P.E.I. showed an 8.7 per cent decline in total rounds played and provincial park site sales are down 2.8 per cent. Visitation at visitor information centres fell by 5.4 per cent over the same period last year. According to the Atlantic Canada Tourism Partnership, factors contributing to the slowdown in tourism in 2003 include SARS, BSE and the high value of the Canadian dollar.

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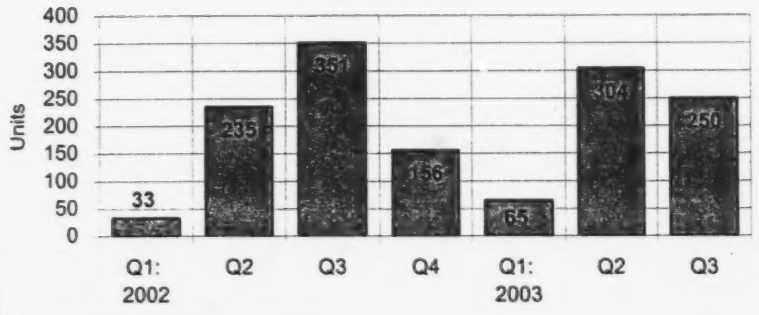

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PRIMARY INDUSTRIES

AGRICULTURE

Table 3 displays quarterly farm cash receipts from potato and other farm operations from 2002 to 2003. Farm cash receipts in the first half of 2003 were down by 0.7 per cent from the first half of 2002. The main factor was the reduced level of government payments to farmers. Potato receipts were valued at $116.2 million during this period, an increase of 6.1 per cent relative to the same period last year. According to Statistics Canada, 106,000 acres of potatoes were planted in 2003, which is down from 109,000 acres in 2002. Current indications suggest a good crop for farmers this year thanks to favorable growing conditions and the absence of disease.

TABLE 3

FARM CASH RECEIPTS
PRINCE EDWARD ISLAND
$ Millions

Year/	Crops			Livestock and Products					Direct	Total
Quarter	Potatoes	Other	Total	Cattle	Hogs	Dairy	Other	Total	Payments	Farm Receipts
2002: Q1	50.4	5.4	55.8	6.2	7.6	13.1	3.7	30.7	8.4	94.9
Q2	59.2	5.2	64.3	7.0	6.8	13.8	2.7	30.3	5.0	99.6
Q3	26.5	14.2	40.7	5.8	6.8	13.1	2.7	28.4	4.0	73.1
Q4	54.9	8.6	63.4	5.9	6.4	13.3	2.8	28.4	7.0	98.8
2003: Q1	64.6	5.8	70.3	6.5	6.5	13.4	3.6	30.0	2.6	102.9
Q2	51.6	5.2	56.8	6.3	6.9	13.9	2.5	29.6	3.8	90.2

Source: Statistics Canada

From January to June 2003, livestock receipts declined by 2.3 per cent relative to the same period last year, to value $59.6 million. This was due to a 3.3 per cent decrease in cattle receipts and a 6.6 per cent decline in hog receipts on a year-to-date basis. The single case of BSE in Alberta has resulted in lower prices for beef producers. Government payments to farmers during the first six months of 2003 were valued at $6.4 million. This is 51.9 per cent lower relative to the same period in 2002, when compensation was valued at $13.3 million.

FISHING

Preliminary estimates provided by the P.E.I. Department of Agriculture, Fisheries, Aquaculture and Forestry indicate that the total value of fish landings in 2003 is similar to the $168.7 million recorded

in 2002. Total fish landings this year are expected to be approximately the same as the 152 million lbs. landed in 2002. Total lobster landings this year were 20 million pounds, up slightly from 19.9 million pounds landed in 2002. Spring lobster landings totalled 17.6 million pounds, which is an increase of 3.0 per cent over last year, whereas Fall landings declined by 16 per cent to 2.38 million pounds. The total value of lobster landings in 2003 is expected to be slightly over the $100 million range.

Rock crab landings are similar to 2002 landings, however lower prices resulting from inventory build up last year are causing values to decrease. The value of rock crab landings was $1.7 million in 2002. In May 2003, federal Department of Fisheries and Oceans released a three-year management plan for snow crab that implemented a substantial reduction in the quota for the region. Snow crab landings on P.E.I. in 2003 are down approximately 30 per cent, to 3.5 million lbs. from 2002. The value of snow crab landings in 2002 was $12.6 million. The Provincial Department of Fisheries and Aquaculture indicates another successful year for Bluefin tuna landings in 2003, and the volume of herring is expected to be at par with the previous year. Tuna and herring landings were valued at $2.1 million and $5.3 million respectively in 2002.

The Island's groundfish fishery in 2003 is affected by the closure of cod stocks in the Gulf of St. Lawrence and northeast of Newfoundland and Labrador announced by the federal government in April of this year. However, as the value of cod landings make up less than one per cent of the total value of fish landings on P.E.I., the cost to the Island fishery resulting from the closure is minimal. Cod landings were valued at $1.1 million in 2002. The value of Island mussel and oyster production is expected to be at par with the previous year. Mussel and oyster production in 2002 was worth $27.9 million.

PROVINCIAL GOVERNMENT

On April 10, 2003, Provincial Treasurer Patricia Mella presented her seventh Budget Address with the theme "Fiscal Responsibility in the New Millennium." The 2003 Budget was presented with full consolidation of provincial accounts, and forecasts a consolidated deficit of $11.5 million for the 2003-04 fiscal year. Spending by the provincial departments of *Health and Social Services* and *Education* increased by $20 million and $16.2 million respectively, and now represent 60 per cent of total spending in 2003-04. The Budget introduced tax relief measures which include an increase in the disability credit of $1,000, to $5,400, and a new provincial tax credit for teachers for up to $500 of allowable expenditures on school supplies.

A Provincial General Election was held on September 29th, 2003, and the Progressive Conservative Government, led by Premier Patrick Binns, claimed a third consecutive majority government. On October 9th, 2003, the Honourable Mitchell Murphy was sworn in as Provincial Treasurer.

SUMMARY

The 2003 Provincial Budget anticipated a reduced level of economic growth from the robust performance in 2002. On November 3, 2003, the Honourable John Manley presented *The Economic and Fiscal Update* which indicates that the original federal estimate of 3.2 per cent G.D.P. growth early in 2003 will now more likely be 1.9 per cent. *The Update* suggests that future economic prospects are favorable.

For P.E.I., employment continues to do well in 2003, causing unemployment to fall. Non-residential construction and service sector employment remain buoyant. However, available data for 2003 to this point show export activity, manufacturing and tourism exhibiting signs of weakness.

Inquiries can be directed to Jamie Dooks at the Economics, Statistics, and Federal Fiscal Relations Division (902) 368-4030.